

foreign or domestic banks. The U. S. Treasury and agency obligations and collateral for the repurchase agreements are held by the enterprise fund's agent in the enterprise fund's name.

As of June 30, 1998, cash and cash equivalents of the Pension Trust Funds' totaled \$1,681,093,000, which represented \$64,363,000, cash deposits and \$1,616,730,000, cash equivalents. These cash equivalents, which are investments with original maturities of less than 90 days, consisted of \$836,741,000, of commercial paper, \$9,031,000, of repurchase agreements and \$770,958,000, in global pooled short-term funds, which are carried at market. All of the cash equivalents are categorized as category 1 for investment purposes. Of the \$64,363,000, carrying value of deposits as of June 30, 1998, the amount of \$14,058,000, was pooled by the State and the bank balance of \$50,305,000, was uninsured and uncollateralized.

The Pension Trust Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland. The law further provides that not more than 25% of the assets that are invested in common stocks may be invested in non-dividend paying common stocks. The Funds' investments are commingled in four combined investment accounts. Two investment accounts consist principally of bonds and other fixed income investments, another consists of pooled real estate funds, real estate investment trusts and directly owned real estate, and the fourth investment account consists principally of common stocks. Investments of the Funds are stated at fair value which is based on quoted market prices.

The investments as of June 30, 1998, for the enterprise and pension trust funds of the Primary Government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations .....	\$ 929,196			\$ 929,196
Repurchase agreements .....	298,350			298,350
Bonds .....	7,941,824			7,941,824
Corporate equity securities .....	16,363,232			16,363,232
	<u>\$25,532,602</u>			25,532,602
Annuities and guaranteed investment contracts .....				35,409
Mutual funds .....				2,125,459
Real estate .....				474,969
Total .....				<u>\$28,168,439</u>

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. government securities of the Lottery to broker-dealers and other entities (borrowers). The State's custodial bank manages the securities lending program and receives U.S. government and agency securities as collateral. The bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State. The collateral will be returned for the same securities in the future. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. Collateral securities are initially pledged at greater than the market value of the securities lent and additional collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent. Securities on loan at year-end are classified in the proceeding schedule of custodial risk according to the category for the collateral received on the securities lent. As of year end, the State held collateral in excess of the fair value of the loaned securities.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 1998. As of June 30, 1998, the fair value of loaned securities and related collateral were as follows (amounts expressed in thousands):

Securities Lent	Fair Value		Percent Collateralized
	Loaned Securities	Collateral Received	
U.S. government and agency securities .....	\$51,747	\$53,058	102.5%

The Funds participate in a securities lending program as permitted by its investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers, in return for collateral of greater value. All loaned securities are reported as assets on the combined balance sheet and are included in the preceding categorization of custodial credit risk.